

20 AUG 1965

NOTE FOR: JSW

1. Attached is my analysis of the retirement annuity adjustment problem. It is very cryptic and possibly intelligible only to me. The analysis covers the CIA Retirement Act, the existing and proposed Civil Service system, the proposed Foreign Service system, and the Military system recently approved in the Pay Act. Also attached are the existing laws and proposed amendments to laws as convenient reference material.

2. The analysis shows that:

(a) CIA retirement annuitants will not get a cost-of-living increase on 1 April 1966.

(1) Only those who retire before 2 January 196⁵ could have received such an increase; and, as you know, we had no such retirees.

(2) Even if we had retirees before 2 January 1965, the cost of living would have had to increase 3 per cent from 1964 to 1965 before a cost-of-living increase could have been granted (Section 291 (a)(1), P. L. 88-643).

(b) Civil Service retirees whose annuities commence by 1 November 1965 would be entitled to an approximately 5.2 per cent annuity increase. This represents approximately 3.7 per cent cost-of-living increase from 1962 to June of 1965 (which could go higher since the 1965 base month used for the comparison would be the month preceeding passage for enactment), plus a 1.5 per cent increase granted to annuitants whose annuities commenced after 1 October 1956 (House passed and reported out of Senate Committee H. R. 8469, Section 18 (a)).

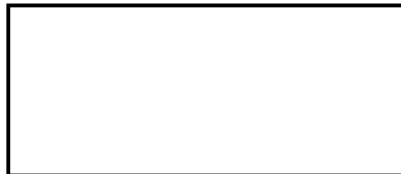
(c) If H. R. 8469 is enacted, CIA retirement annuitants whose annuities commence by 1 November 1965 (assuming passage of H. R. 8469 in August) will not receive any cost-of-living increase in annuities without some legislative remedy, while their Civil Service counterparts would receive some 5.2 per cent increase under H. R. 8469.

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(d) Further, even if H.R. 8469 is not enacted, Civil Service retirees will receive at least a 3.7 per cent increase under present cost-of-living trends as of 1 April 1966 pursuant to existing law. Such retirees' annuities commencement dates must be earlier than 2 January 1965; and, therefore, under existing legislation CIA annuitants would not be at a disadvantage when compared to cost-of-living adjustments under existing Civil Service retirement statute.

3. The wording of P.L. 88-643, Section 291 (a)(2) leaves unclear what base period is to be used to compute a price index change "of at least 3 per centum" for determining cost-of-living adjustments of annuities after 1 April 1966. Section 291 (a)(1) sets 1964 as the base for any adjustment effective 1 April 1966, yet as pointed out earlier the base period used for such comparison is 1964 rather than 1962, as provided in existing and proposed Civil Service retirement legislation, proposed Foreign Service legislation, and the recently passed Military legislation, H.R. 9075. Although there is a clearly defined base year for 1 April 1966 adjustments, there is not for subsequent adjustments. For such subsequent adjustments under P.L. 88-643 it may be possible to interpret Section 291 (a) as incorporating the 1962 base period set forth in Section 18 (a) in existing Civil Service retirement annuity legislation. If this improbable interpretation could be sustained, this would mean that CIA retirement annuitants whose annuities commenced before 2 January 1966 could be increased effective 1 April 1967 by the difference between the cost of living in 1962 and the cost of living in 1966. This would, of course, cover all retirees whose annuities commenced before 2 January 1966. However, under that interpretation there would be no way to recoup the 1.5 per cent bonused adjustment provided in the proposed Civil Service amendment, H.R. 8469.

4. Other than the above points, I will refrain from making any other comments or suggestions, thinking you will want to question me most closely on this.



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